

STATE BANK AND BRANCH CAPITAL REQUIREMENTS FOR FEDERAL RESERVE SYSTEM MEMBERSHIP

JULY 1, 1952.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted
the following

REPORT

[To accompany S. 2938]

The Committee on Banking and Currency, to whom was referred the bill (S. 2938) to amend section 9 of the Federal Reserve Act, as amended, and section 5155 of the Revised Statutes, as amended, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

REQUIREMENTS FOR ADMISSION TO MEMBERSHIP

Under present law, no State bank may be admitted to membership in the Federal Reserve System unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national bank in the place in which it is located. Consequently, in accordance with the capital requirements for national banks as contained in section 5138 of the Revised Statutes, a State bank, in order to be eligible for membership, must have a paid-up unimpaired capital stock of \$50,000 in places of not more than 6,000 population, \$100,000 in places of 6,001 to 50,000 population, and \$200,000 in places of over 50,000 population (unless the bank is located in an outlying district where a \$100,000 minimum may apply). Certain exceptions permit the admission of State banks to membership if located in places of not more than 3,000 population with a minimum capital of \$25,000.

These requirements are arbitrary and unrealistic and prevent sound banks, which are otherwise entitled to membership and most of which are insured banks, from becoming members of the Federal Reserve System. The capital needs of a bank are not dependent upon and cannot be determined by the population of the place in

which the bank is located. For example, one bank may not have half as great a volume of deposits and of risk assets as another bank in the same town, or a bank located in the larger of two towns may be much smaller than a bank located in the other town. The arbitrary nature of the present requirements is further emphasized by the fact that a very slight difference in populations of the towns in which two banks are located may make it necessary for one bank to have twice as much capital stock as the other in order to be eligible for membership, although the banks are comparable in size and character of assets.

In order to be eligible for membership, it would be necessary for many banks to increase their capital stock to amounts out of proportion to their needs. In this connection, it should be noted that the existing requirements relate only to capital stock and disregard surplus and other accounts which are part of the capital structure of a bank and provide protection for depositors. Thus, one bank may be eligible for membership because it has the required capital stock but another bank with less but adequate capital stock is not eligible although it has a substantially larger and better balanced capital structure. While a bank should have a reasonable basic capital, this is only one factor and consideration should be given to other capital accounts.

No precise formula can be devised for determining the adequacy of capital in all cases. This is recognized by the Federal Deposit Insurance Act which prescribes no specific capital requirements for deposit insurance but provides merely that the Federal Deposit Insurance Corporation, in approving a bank for deposit insurance, shall consider, among other factors, the adequacy of the bank's capital structure.

Section 1 of the proposed bill would vest in the Board discretion with respect to the admission of State banks to membership similar to the discretion now vested in the FDIC with respect to approval of banks for deposit insurance. The bill would provide that no State bank shall be admitted to membership unless it possesses capital and surplus which, in the judgment of the Board of Governors, are adequate in relation to the character and condition of the bank's assets, existing and prospective deposit liabilities, and other corporate responsibilities. However, if a State bank does not have capital and surplus in an amount which would be required for the organization of a national bank in the place in which it is located, in other words, if it has less capital and surplus than that required for national banks by present law, such a State bank would not be eligible for membership in the System unless it is approved for deposit insurance under the Federal Deposit Insurance Act.

The proposed legislation also would provide that the capital stock of a State member bank shall not be reduced without the consent of the Board. National banks and insured nonmember banks are required by law to obtain the consent of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, respectively, before reducing their capital stock, and most State member banks are subject to a condition of membership prescribed by the Board for many years which prohibits capital-stock reductions without the Board's consent. It appears desirable to cover this matter by law in the case of State member banks in order that all such banks will be subject to this requirement.

REQUIREMENTS FOR BRANCHES

Under existing law, State member banks of the Federal Reserve System which desire to establish branches must comply with the same limitations and restrictions as those which are applicable to the establishment of branches by national banks under section 5155 of the United States Revised Statutes; and that section provides that, in order for a national bank to establish a branch beyond the limits of the place in which it is located, it must have a capital stock of at least \$500,000 (except that a lesser minimum is applicable in States with a population of less than 1 million).

This requirement has little relationship to the capital needed by the banks and is much more stringent than the requirements of many State laws for the establishment of branches by State banks. It results in unfair discrimination against State member banks and, in effect and without justification, closes the door to membership for banks (including nonmember insured banks) which otherwise might be members of the Federal Reserve System. In some instances, State banks have withdrawn from membership because they wished to establish out-of-town branches and the increases in capital stock necessary to meet the statutory requirements could not be justified. Other State banks with branches lawfully established and in lawful operation have been prevented from joining the Federal Reserve System because they could not do so without giving up their branches or increasing their capital stock to amounts in excess of their capital needs.

Under section 2 of the proposed bill, national banks and State member banks would continue, as at present, to operate under the same conditions as to the establishment of branches; but section 5155 of the Revised Statutes would be amended to eliminate the present minimum capital requirement for the establishment of branches by national banks. This would mean that State member banks also would no longer be required to have a capital stock of at least \$500,000 in order to establish out-of-town branches. They would, however, still be subject to the aggregate capital requirements contained in other provisions of section 5155 of the Revised Statutes which require a bank to have a capital stock equal to the total amount which would be required for the establishment of a national bank in each of the various places where its branches are situated. In order that this change may not operate to give national banks an undue competitive advantage over State banks in those States in which capital requirements for State banks are more rigid than those of Federal law, the bill would contain a provision under which a national bank could not establish an out-of-town branch unless it has an amount of capital and surplus equal to that required by State law for the establishment of such branches by State banks.

Apart from capital requirements, the proposed legislation would remove an inconsistency in the law relating to the establishment of branches by banks within the limits of the places in which their head offices are located. Under existing law, the approval of the Comptroller of the Currency and of the Federal Deposit Insurance Corporation is required for the establishment of domestic branches by national banks and nonmember insured banks, respectively, whether such branches are located within or beyond the limits of the places in which the head offices are located, but the law requires the approval of the Board only for the establishment of out-of-town branches by

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State member banks. It is felt that the approval of the Board should likewise be required for the establishment of intracity branches by State member banks and the proposed legislation includes such a requirement, except as to branches of State member banks in the District of Columbia which under present law must be approved by the Comptroller of the Currency.

Your committee urges that the bill do pass.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as passed by the Senate, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

FEDERAL RESERVE ACT, AS AMENDED

* * * * *
SEC. 9. * * *

Third Paragraph

BRANCHES OF STATE MEMBER BANKS.—* * * *The approval of the Board shall likewise be obtained before any State member bank may establish any new branch within the limits of any such city, town, or village (except within the District of Columbia).*

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Eleventh Paragraph

CAPITAL REQUIRED FOR MEMBERSHIP

No applying bank shall be admitted to membership [in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of chapter 2 of this title: *Provided*, That this section shall not apply to State banks and trust companies organized prior to June 16, 1933, and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than \$25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 264 of this title, increases its capital to not less than \$25,000.] *unless it possesses capital stock and surplus which, in the judgment of the Board of Governors of the Federal Reserve System, are adequate in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities: Provided*, That no bank engaged in the business of receiving deposits other than trust funds, which does not possess capital stock and surplus in an amount equal to that which would be required for the establishment of a national banking association in the place in which it is located, shall be admitted to membership unless it is, or has been, approved for deposit insurance under the Federal Deposit Insurance Act. *The capital stock of a State member bank shall not be reduced except with the prior consent of the Board.*

SECTION 5155, REVISED STATUTES, AS AMENDED (U. S. C., TITLE 12, SEC. 36 (C))

* * * Except as provided in the immediately preceding sentence, no such association shall establish a branch outside of the city, town or village in which it is situated unless it has [a paid-in and unimpaired capital stock of not less than \$500,000: *Provided*, That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than \$250,000: *Provided*, That in States with a population of less than one-half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than \$100,000.] *a combined capital stock and surplus equal to the combined amount of capital stock and surplus, if any, required by the law of the State in which such association is situated for the establishment of such branches by State banks, or, if the law of such State requires only a minimum capital stock for the establishment of such branches by State banks, unless such association has not less than an equal amount of capital stock.*

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